MARKET ANALYSIS OF REITS AND REAL ESTATE COMPANIES

Audit's Realty Stock Review

LD 3/10 89
RSR 39

March 10, 1989 Volume XX, Number 5

Investment Builders Creating Values Amid Soggy Markets

Astute Use of Margin and Monopoly Help in Coping With Overbuilding

"Margin" and "monopoly" are the two most important — and overlooked — words for real estate investors. Our March reviews of investment and community developers show that strategies maximizing margin and monopoly clearly are the common threads uniting otherwise disparate companies.

Ultimately "margin" and "monopoly" become the yardsticks against which you should measure the long-term value creation ability of a company.

Companies reviewed fall into two distinct categories, and here is how you can use the margin and monopoly yardsticks to pick values in each group:

Major Income Property Developers: Six companies reviewed this issue fall in this group: Chicago Dock & Canal Trust, Cousins Properties, Forest City Enterprises, Koger Properties and its related Koger Equity, and Rouse Co. It matters little to investors that three of these (Chicago Dock, Cousins and Koger Equity) choose to operate in REIT format.

The fundamental goal of each company's business plan is the same: obtain raw land at a cheap-enough price and build income properties able to command high enough rents (the margin) that they will be insulated from enough competition (the monopoly factor) to maintain high value for decades.

Take Chicago Dock: It is heir to a land assemblage, put together by Abe Lincoln, that sat for nearly a century as a tangled mess of warehouses and industrial property. Operating as a REIT, DOCKS has spent 20 years getting planning approval for a premier complex modeled after New York's successful Battery Park City. Now construction is underway at the site and two developers have leased two key parcels. When completed, DOCKS will have converted low-cost land into premium-rent property (the margin) with near-monopoly location in downtown Chicago.

Each of the other five investment builders can be measured against this margin and monopoly test. Cousins has superior suburban land holdings in Atlanta; Forest City builds major shopping and multiuse complexes in urban locations; Rouse is synonomous with enclosed shopping malls and downtown festival centers; and the Koger tandem duplicates cost-efficient suburban office complexes in enough cities to let it market space to national tenants. Each applies the margin and monopoly strategy very well to create superior long-term values.

New Community Developers: Four companies fall in this group: AMREP Corp., Fairfield Communities, General Development, and Del Webb Corp. This category also includes Interstate General and Newhall Land & Farming, two master limited partnerships reviewed Jan. 13.

Take AMREP and apply the margin and monopoly test this way: AXR bought thousands of cheap acres outside Albuquerque, N.M. in the 1960s and sold thousands of lots via the installment route until 1976, when the FTC effectively forced AMREP to quit installment selling. This forced AMREP to focus on building a real city, which it has done with vigor. Today its Rio Rancho is a city of 32,000 built on cheap land (the margin) which sits astride the major path of development for Albuquerque (the monopoly factor).

Similarly Fairfield Communities builds active recreational communities in the Sunbelt; General Development builds retirement oriented towns in Florida; and Del Webb builds Sun City retirement cities in the West. Because each works margin/monopoly well, all are active or potential takeover targets.

We have not changed Ranks of any of the stocks. This is a strong list of companies: All but two are currently included in our Portfolio Selector and based on our review, we will add **Koger Equity** to this list with the Mar. 24 issue. That leaves only Del Webb Corp., among companies reviewed this issue, as not included in Portfolio Selector.

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RANKING REVIEW ISSUE

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AMREP CORP. (AXR:NYSE)

Since AXR lost its most effective shark repellant last fall, the stock has moved up a bit. Known primarily as the developer-builder of Rio Rancho community near Albuquerque, N.M., AXR had been embroiled for years with the Federal Trade Commission over fraudulent land sales practices at Rio Rancho from 1972 thru 1976, when AXR largely discontinued retail land sales. This FTC inbroglio always deterred AXR's many suitors.

But in October 1988, AXR won what appears to be the last major litigation battle when a Federal judge in New York City threw out the FTC's attempt to seek relief for land buyers who'd settled under a 1981 class action. The decision may only be appealed with the judge's consent, and so far no appeal made.

Gut Issue: Is anybody now interested in making a run at AXR or is AXR itself looking for a buyer? Consider the case for the latter theory: AXR has been telling its "lost protection" story to numerous savvy Wall Streeters since last fall. Several have established positions.

Since AXR is no stranger to takeover wars, the moves may mean AXR is subtly signalling it wants a takeover bid for all shares. Over the years AXR has fended off several takeover tries, beating back bids from Saul Steinberg and N.Y. investment managers Morgens Waterfall in 1982 and by Canadian investor George Mann (who controls Unicorp Amer. Corp.) in 1983-84.

In the aftermath (Sept. 1984), AXR adopted an anti-takeover package including a "fair price" clause forcing takeover hopefuls to pay a single price to all shareholders (i.e., no two-tier offers). This clause is taken to mean that any offer for any and all shares might win favor with AXR directors and management. Price is still the key, tho.

About 20.8% of shares are held by three investment groups: 8.2% by Kane Miller Corp., Tarrytown, N.Y. private food company and stock investor; 6.8% by estate of investor H.C. Bennett, Wichita; and 5.8% by clients of Dimensional Fund Advisors, Inc., Santa Monica, Cal. Insiders own 5.2%.

The honey attracting the bees is clearly AXR's 26,000 acre land inventory at Rio Rancho, a major community begun as an installment land sales project in the 1960s. Rio Rancho, 11.5 miles northwest of Albuquerque, sits in the path of Albuquerque's main expansion route and has grown into a city of 32,000, mostly first-time homebuyers attracted by its cheap house prices.

AXR book value of $10.04/sh. puts an $800/acre value on AXR's 26,000 acres, of which 6,200 acres are in contiguous blocks suitable for current development; the rest is scattered.

Current values, however measured, appear many times AXR's cost: a typical building lot of about 3/4 acre is valued at $10-$12,000 today while commercial land is at $3.50-$5/sq. ft. or $150,000-$200,000 per acre. Rio Rancho house sales will be flat in AXR's April 1989 year, result of new FHA mortgage rules. In Feb., AXR attracted its first Japanese company to Rio Rancho, to employ 350 to build capacitors. In Fla., an Orlando apartment and W. Palm Beach congregate care center are in process.

Advice: Buy for aggressive accounts, even in face of today's rising money market. The 15% discount to cost-basis book value should be rewarding longer term. (KDC)

AXR-NYSE **Rank C** **April years** **6.61 mil. shs.**
Price: $8.38 Div. None Yld. 0.0% Price/Earnings: 42

Year	Op.EPS	Div.	High	Low	Pr.X EPS
1985	1.03	0.00	$9.86	$5.69	9.6-5.5
1986	1.44	0.00	22.50	9.13	15.6- 6.3
1987	0.94	0.00	23.38	11.25	24.9-12.0
1988	0.31a	0.00	16.88	6.38	54.2-20.6
1989E	0.20-0.30	0.00	10.13	7.13z	

a-Plus $0.53 cumulative effect of accounting change. z-To date.

Finances: Debt: $49.0 mil; Equity $66.3 mil. or $10.04/sh. Debt/equity ratio: 0.74-1.
Address: 10 Columbus Cir., New York, N.Y. 10019. (212) 541-7300.

Docks 31089

CHICAGO DOCK & CANAL TRUST (DOCKS: OTC)

DOCKS remains the REIT industry's most fascinating but very long term asset play. DOCKS is making encouraging progress in developing a major urban complex on its prize asset, 32 acres in center city Chicago; diversification outside Chicago has helped.

Gut Issue: Can DOCKS sustain its development push amid current market sluggishness? Development activity is finally blossoming just as the real estate market weakens. We think weakness may postpone but won't kill realization of DOCKS' underlying values.

It took 20 years to get planning approval for a 12 mil. sq. ft. office/residential complex called CityFront Center on this sensitive urban site, on the Chicago River's north bank opposite Illinois Center. In 1986, DOCKS sold some older properties to

Realty Stock Review SUBSCRIPTION $288 ANNUALLY. PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS. GROUP RATES ON REQUEST
AUDIT INVESTMENTS, INC., 136 SUMMIT AVENUE, MONTVALE, NJ 07645-1720 Phone (201) 358-2735
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gain funds to diversify outside Chicago and finance $10 mil. phase one of $30 mil. infrastructure improvements needed to ready DOCKS' land for new construction.

Inside CityFront, the 450,000 SF North Pier Terminal was partly sold, partly leased to a local developer for speciality shops and professional loft space, now about 50% leased. The developer is also beginning to build 550 apartments at Lake Shore Drive. Two current deals are moving ahead, albeit slowly in today's tight financing environment: Tishman Realty & Const. leased 2 acres for a planned 1,200-room, $175 mil. convention hotel, subject to financing; and Habitat Co. has a ground lease to build 1,000 apartments on 2 acres. Construction hasn't started on either but both could get into the ground this year.

To generate operating cash flow, DOCKS in 1985-86 paid $46 mil. for three offices with 337,000 sq.ft. and a 90,000 SF shopping center, all outside Chicago. All are doing well, with a Lansing, Mich. office a real winner. A hidden gem is DOCKS' 62% interest in the 692,500 sq.ft. Equitable Bldg., a 35-story office on prestigious N. Michigan Ave., generating $4.2 mil. annual rentals under a net lease to Equitable. These rents escalate rapidly in 1992, when Equitable also has option to buy DOCKS' interest for $50 mil., or about $5.85/sh. present value.

What is DOCKS worth? Our estimate: $32.25 to $42.25/sh., derived $6.42/sh. current book, $5.85 interest in 401 N. Michigan, and about $20-$30/sh. for unrealized land value. We put land in at $100 and $150/sq.ft. in this estimate (vs. appraised value about $135/sq.ft.). A simple formula: each $25 per sq. ft. land value equals $5/sh. unrealized value.

Advice: DOCKS isn't for traders because nothing happens rapidly. With only 1% yield, DOCKS is a long-term buy on any price breaks, say to the $22-$24 range. (KDC)

DOCKS—OTC Rank B April yrs. 5.78 mil. shs.
Price: $25.75 Div. $0.30 Yld. 1.1%

Yr.	Op.EPS	CFS	Div.	High	Low	Yld.Range
1985	$0.17	$0.24	$0.30	$23.50	$17.63	1.7-1.3%
1986	0.24	0.24	0.30	24.50	18.00	1.7-1.2
1987	0.52a	0.68	0.30	37.50	19.00	1.6-0.8
1988	0.20	0.45	0.30	34.50	17.50	1.7-0.9
1989E	d0.10	0.30	26.25	22.50z		

a-+ Sale gains: '87-$1.33. z-To date.

Finances: Debt: $27.7 mil.; Equity: $37.1 mil. or $6.42/sh. Debt/Equity ratio: 0.75-1. Owners: Officers: 6.1%; Fiduciary Trust, N.Y., 10.2%; Industrial Equity (Pacific), 5.2%.
Address: 401 N. Michigan, Chicago, Ill. 60611. (312) 467-1870.

COUSINS PROPERTIES INC. (COUS: OTC) Cous 3/10 89

Long a premier Atlanta developer, COUS converted to REIT status in 1987. It is slowing new construction at a Class A office joint venture (with IBM) in northwest Atlanta to focus on Southeastern office development. Land holdings are key to COUS' future.

Gut issue: Will COUS' focus on joint venture office projects in the Southeast maintain momentum? Because COUS is so closely linked to Atlanta, pessimism about that city's saturated office market has restrained COUS results and stock price. But COUS has shifted focus and should be able to ride thru easily. Projects:

Wildwood—suburban Atlanta: Concern focused on 240-acre Wildwood, a joint venture with IBM where COUS most recently built a 600,000 SF office, now about breakeven at 60% occupancy. COUS picked up about 10% occupancy here in 1988 and hopes to top 80% by year-end, despite Atlanta's near-30% vacancy rate. Last year IBM elected not to exercise options on the remaining 138 acres, freeing COUS to go ahead if and when preleasing justifies another building.

191 Peachtree—downtown Atlanta: COUS has taken a 9.8% interest (with no cash outlay) in a 1.1 mil. SF tower, about 40% preleased. Dutch pension funds provide the bulk of equity and COUS earns a construction management fee. Completion is for late 1990.

First Union Tower—Greensboro: An 85% owned venture is building a 320,000 SF office in Greensboro, N.C., with First Union Bank as major tenant. The 67% preleased building opens late 1989.

Haynes Bridge Rd.—suburban Atlanta: In Dec. 1988 a JMB Realty-Homart Development venture exercised its option to buy from COUS a 100 acre regional shopping mall site near Roswell. COUS will recognize about $0.60/sh. profit when construction begins (expected 1990-91). The kicker is that COUS owns about 550 adjoining acres that would benefit from a new regional mall.

Cash flow and asset values: As a major land owner, quarterly or annual EPS can vary widely, depending on periodic land sales. Value of its major assets, suburban commercial land, can swing with local markets. COUS has low debt and is highly liquid with about $5.33/sh. cash and notes, (interest is 60% of income), hence able to ride out weak markets.

Advice: Patient investors will buy on any big dips for long-term holding. (KDC)

COUS—OTC Rank A Dec. years. 17.35 mil. shs.
Price: $14.88 Div. $0.60 Yld. 4.1%

Yr.	Op.EPS	Div.	High	Low	Yld.Range
1985	$0.37a	$0.17	$11.38	$7.38	2.3-1.5%
1986	0.33a	0.196	14.50	8.75	2.3-1.4
1987	0.63a	0.467	17.25	10.50	4.5-2.7
1988	0.54a	0.85b	18.00	11.50	7.4-4.7
1989E	0.65	0.60	15.25	14.75z	

a-+Sale gain: '85-.18; '86-1.39; '87-.02; '88-.02. b-Incl. $0.25 special. z-To date.

Finances: Debt: $13.3 mil.; Equity: $112.9 mil. or $6.51/sh. Debt/equity ratio: 0.12-1. Joint ventures held $227 mil. assets at Dec. 1987 and are leveraged about 1-to-1. Chrm. & Pres. Thomas Cousins owns 26.8% and all officers own 37.4%.
Address: 2500 Windy Ridge Pky., Atlanta, GA 30067. (404) 955-2200.

FCI 31089

FAIRFIELD COMMUNITIES INC. (FCI: NYSE)

FCI develops recreational/resort communities (including time-shareing), residential and retirement communities thru-out the Sunbelt.

Gut Issue: Can FCI maintain its footing with timeshare sales towing the line as a swamp of competition adds pressure to this segment? Timeshare sales are quite lucrative and have attracted a lot of attention. FCI unfortunately is increasingly relying on such sales. Timeshare sales grew to 34% of revenues in 1988 from 30% in 1987 and 31% in 1986. The growth in timeshare sales may already be slowing and large players like Marriot, Disney and General Development Corp. will help to foster a shake-out.

The balance of FCI's 1988 revenues are derived: 30% homes; 7% installment lots; 3% commercial land; 11% resort; 15% interest and other. All segments but timesharing and interest/other had a down year in 1988. Of the $111 mil. timesharing sales about 1/3 drops to the bottom line.

Total revenues fell by 5% for the year ended Dec. 31, 1988 to $330 mil., yet earnings rose 47% to $0.28/sh. from $0.13/sh. in 1987. The bulk of the increase came from net operating loss carry-forwards of $1.1 mil. or $0.11/sh. in 1988 vs. $577,000 or $0.06/sh. in 1987. Earnings in 1989 will likely mirror those of 1988, along with use of NOL's.

Home and lot sales were hurt by mothballing in 1988 of four projects which had contributed $17 mil. in annual sales. Homes are built and sold under the auspices of both the Home Group (as residential and retirement product with an average price of approx. $125,000), and the Resort Group (as vacation townhomes and condos, with an average price of about $95,000). Total backlog at 12/88 was $32 mil. ($11 mil. Home Group and $22 mil. Resort), a decrease of 16% from a year ago.Home Group builds residential developments in 14 locations primarily in Ariz. and Fla. and maintains FCI's portfolio of commercial properties. FCI's Resort Community Group builds the balance of FCI's product in ten states across the Sunbelt. FCI operates 10 full scale resort communities with approx. 60,000 acres; five timesharing sites; and five homebuilding tracts in Ariz. and Ga.

FCI's commercial sales were hurt by its effort to sell six Fla. homebuilding operations to an affiliate of Nutrition World Inc., owner of 12.9% of FCI stock. FCI had the sale under contract for $78 mil. (approx. book value), but it fell thru when favorable financing could not be arranged.

Fairfield Acceptance Corp., an unconsolidated finance sub. added $7.9 mil. pre-tax in 1988. FCI also operates insurance sub., Imperial Life Ins. Co. and mortgage broker, Fairfield Mortgage Corp. FCI is attempting to acquire a N.Car. S&L.

Advice: Hold for recovery or wait. FCI is pruning unprofitable units to restore profits in competitive markets. (MJH)

FCI-NYSE RANK C Dec. years 10.86 mil. shs.
Price: $6.75 Div. None Yld. 0.0%

Year	Op.EPS	Div.	High	Low	Price/earn ratio
2/85	$1.49	$0.165	$16.75	$9.63	11.2- 6.5
2/86	0.83	0.185	15.50	9.88	18.7-11.9
12/86a	(1.62)a	0.15a	13.88	7.00	d - d
12/87	0.13b	0.00	12.00	4.38	92.3-33.7
1988	0.28c	0.00 z	6.38	4.50	22.8-16.1
1989E	0.30c	0.00	7.00	5.88z	

z-To date.
a-10 mon.; Taxloss benefits: b-Excl. $0.06/sh; c-Excl. $0.11/sh.

Debt: $438.7 mil. Equity: $109.6 mil. or $10.09/sh. Debt/equity ratio: 4-1 Address: 2800 Cantrell Rd., Little Rock, AK 72202. (501) 664-6000.

GDV 31089

GENERAL DEVELOPMENT CORP. (GDV:NYSE)

GDV is Florida's largest community developer, selling homesites, houses, timesharing units, and commercial land. Two unrelated groups have recently made takeover bids.

Gut Issue: Can GDV escape its determined pursuers? GDV said it wasn't for sale in turning down a bid to be acquired by Amruss Partners, an Englewood, Col. group headed by investors and developers Robert and Deborah Russell, who were seeking to acquire GDV for $18/sh. cash plus a $5 debenture.

In the wings and perhaps a more serious contender is **United** Capital Corp. (ICU: ASE), a new conglomerate after merger of New York based real estate Metropolitan Consolidated Industries, Inc. and Metex Corp. ICU has acquired 9.9% of GDV's 8.65 mil. shares and expects to acquire up to 15%.

Gut Issue: How quickly can GDV restore profit growth? The year 1988 was a disappointment to investors as EPS from continuing operations fell 32% to $1.80/sh. The Dec. qtr. fell 28.5% to $0.50 after preferred dividends. Happily, GDV discontinued its money-losing non-community related homebuilding operations, Florida Residential Communities, and absorbed $1.21/sh. loss on this line.

Total net income per share was down 10% after allowing for the $1.21 per share loss from discontinued operations, a $0.39 loss from retirement of debt and a cumulative accounting gain of $2.13 per share. GDV took $1.16 per share loss on discontinued operations in the Dec. quarter resulting in a loss of $0.66 per share. These results mask GDV's 1988 revenues, which rose 7% (to $511.5 mil. from $476 mil.) from the prior year and Dec. quarter revenues, up 16% (to $150.4 mil. vs. $130 mil.) from 1987's comparable period.

To bolster profitability, GDV has made an increasing commitment to its timesharing segment with the recent agreement to purchase Calif. timeshare developer, Glen Ivy Financial Corp. GDV's timesharing sales rose 44% to the $65 mil. level

in 1988, generating 65% gross margin. Glen Ivy operates 10 resort communities in five western states (including Haw.) and had 1988 sales of $81.6 mil. and pre-tax earnings of $15.7 mil. Timeshare margins are becoming increasingly squeezed for reasons cited under Fairfield Communities' review, above.

GDV has also started a big push of installment land sales, mainly to foreigners. Homesite sales in Europe and the Far East rose 293% in 1988 to $102.3 mil. Sales in 1988 were up 21% to $266 mil. (lots sales of about 15,000 were up 15%). New homesite contracts written rose 27% to $282 mil. and contracts receivable of $614 mil. are 100% above last years level.

With the divestiture of Fla. Residential Communities, GDV will focus its home building operations around its nine planned communities in Fla. Homebuilding sales in 1988 fell 11% to $111 mil. from $124 mil. in 1987. GDV closed and delivered 1,288 homes in 1988, a decrease of 11% from 1987. New orders were up 23% to 1,610 and backlog reached 796, an increase of 68%. The average home price hovers about $75,000.

Operating results at GDV's other segments, commercial land sales and utilities fell 8% and rose 16% respectively.

With book value of $23.79/sh. and perhaps $8 of unrealized value in its utility plants, GDV remains a tempting target. It was spun out publicly in the breakup of City Investing Corp. in Sept. 1985 and as result six institutions own about 46% of shares fully converted. Management owns about 7.4% including stock options, with the chairman and president owning about 2.4% each.

Advice: Hold or trade if that is your appetite. We continue to list GDV in Portfolio Selector and expect GDV shares to be volatile for a while as takeover rumors heat up. (MJH/KDC)

GDV-NYSE RANK C 8.60 mil. shs.
Price $15.88 Div.None Yld. 0.0%

EPS/Dividends - C (Dec. yrs.):

Year	Op.EPS	Div.	High	Low	Pr.X EPS
1985	$3.01	$0.00	$15.63	$9.88	5.2- 3.3
1986	2.67	0.00	25.25	14.13	9.5- 5.3
1987	2.60	0.00	26.63	8.13	10.0- 3.0
1988	1.80	0.00	19.50	10.38	10.8-5.8
1989E	2.00a	0.00	18.88	12.50z	

a-Before d$1.60 discontinued lines and charges and $2.13 accounting change. z-To date.

Finances: Debt: $495 mil.; Equity: $204.5 mil. or $23.79/sh. after preferred. Debt/equity ratio: 2.4-1. Prudential owns $25 mil. pfd. convertible at $25.
Address: 1111 S. Bayshore, Miami, Fla. 33131. (305) 350-1200.

FOREST CITY ENTERPRISES INC. (FCE: ASE) RV 31089

This Cleveland-based company focuses on major urban developments with some monopoly value. The controlling Ratner family owns 69% of Cl. B shares, which elect 75% of directors, and also holds a majority of Cl. A shs.; both trade on the ASE.

Gut Issue: Should FCE go private? There's no question about FCE's ability to create real estate projects with longer economic lives than most run-of-the-mill projects. FCE does this by focusing on doing projects where its size and experience make it almost impossible for competitors to follow. In recent years this tack led FCE into major urban renewal projects where FCE takes a chance on pioneering neighborhoods but has loads of local support.

Example: In 1984, FCE bought a downtown renewal tract in Charlestown, W.Va. and built a 905,000 sq.ft. shopping/multiuse center. FCE owns 50% of 367,000 SF mall space with sales and cash flow above U.S. averages. Reason: the center in effect became a new downtown that should withstand competition for decades.

The problem with FCE is that it's a public company in name only: the Ratner family owns 64% of the A stock and 69% of the super-voting B stock. Additionally, Harris Assoc. and Irving Harris, unaffiliated parties both of Chicago, own approx. 5.4% of the A stock and 6.6% of the B; and Interstate Properties, N.J. deveoper, holds 5.9% of the B stock. That means that nearly 70% of the A stock and over 81% of B shares aren't available for trading.

Assets and Operations: FCE results include both unconsolidated Forest City Rental Properties Inc., a $1.2 bil. investment builder, and parent company operations in land sales, merchant building, and lumber brokerage and wholesaling. Retail operations were sold in 3/87. Combined revenues probably topped $290 mil. in FCE's Jan. 1989 fiscal year, up about 5%. We estimate those revenues were about 70% property rents and 30% from Enterprises operations.

Rental Properties' net cash flow, including deferred income taxes and after mortgage principal payments, should have reached about $28.8 mil. or $4.15/sh., up about 4%. FCE's common thus is selling at about 10.2 times net cash flow, vs. CFS multiples of 12-15 for most equity REITs and above 20 for Rouse Co. Our cash flow estimates exclude about $0.80 in deferred taxes and are after about $1.01/sh. equity buildup via debt repayment.

Rental Properties' assets now top $1.35 bil. at cost, more that doubling holdings of two years ago. About $200 mil. projects are under construction at any one time. Here'a a brief rundown of projects in progress:

Metro/Tech, Brooklyn: This projected $1 bil. academic/hightech project on 16 acres adjoining Brooklyn Polytechnic Institute got a boost when Chase Manhattan decided to build 1.5 mil. SF for back-office operations. FCE will soon begin building a 500,000 SF office to be 66% occupied by Securities Industry Automation Corp. and an 843,000 SF building to be 53% occupied by Brooklyn Union Gas Co. A year ago FCE opened the adjoining One Pierrepont Plaza, now 97% leased, mainly to Morgan Stanley Co.

University Park at M.I.T., Cambridge, Mass.: The 106,000 SF Jackson Bldg. is 95% leased and 100,000 SF Clark Bldg. is 64% pre-leased and under construction. The park will have 2.2 mil. SF.

Tower City, Cleveland: FCE is building a 350,000 SF shopping arcade here next to a refurbished hub of Cleveland's rapid transit system. On adjoining parcels it plans a 111,000 SF office plus Ritz Carlton Hotel; and a 310,000 SF office to capture a market window. Adjoining 460,000 SF Old Post Office is being renovated.

Retail projects: Victor Valley Mall in Victorville, Cal. is being expanded; Canton (O.) Centre was expanded to 700,000 SF; first phase of 600,000 SF Robinson Town Centre near Pittsburgh's airport is set to open in July; and 300,000 SF Tucson (Ariz.) Place will open late this year.

Congregate Care: In a venture with Marriott Corp., FCE is building care centers in Teaneck, N.J.; Chevy Chase, Md.; and Queens and Yonkers, N.Y.

FCE holdings include approx. 50% in 18 regional malls with 10.7 mil. net SF; four hotels; eight mixed use/office projects with 2.4 mil. SF; and net 8,626 apts.

Advice: FCE is building substantial long-term values by developing major urban properties with some insulation from competition because of their location, design and financing. The risk is that building outpaces center-city demand. We think share values are north of $50/sh. **Buy/hold long-term.** (KDC)

FCE.A & FCE.B-ASE Rank B Jan. yrs. 7.95 mil. total A&B shs.
Price: $42.25-A; $42.00 B Div.$0.38(A) Yld.1.1%

Yr.	Op.EPS	CFS-b	High	Low	Pr.X CFS
1985	$0.42	$1.31	$21.25	$15.00	16.2-11.5
1986	0.59a	1.80	26.13	20.38	14.5-11.3
1987	1.15a	2.78	38.00	22.00	13.7- 7.9
1988	0.44a	2.39	40.50	26.75	16.9-11.2
1989E	NE	4.15	43.50	29.38	10.5- 7.1
1990E	4.35	42.63	41.50z		

z-To date. a-Before net of equity in property disposition gains by unconsolidated subsidiary and discontinued lines: $0.35/-'86; $0.49-87; d$0.03-'88; and in '88 $1.15 credit from acctg. chnge. on income taxes. b-Computed by Audit excl. deferred taxes.

Finances: Debt: $54 mil. parent; $990 mil. Rental Props.; Equity: $91.6 mil. parent at cost. Rental Props. depreciation: $19.99/sh.
Address: 10800 Brookpark, Cleveland, O. 44130. (216) 267-1200.

RV 31089

ROUSE COMPANY (ROUS: OTC)

This premier developer of suburban mall centers and urban festival centers continues growth, albeit at somewhat slower pace. Land sales from the new town of Columbia are expected to fall in 1989 as ROUS stresses land retention.

Gut Issue: What will happen when a standstill pact with 25% owner Trizec Corp. of Canada expires on Dec. 31? Trizec, the Canadian powerhouse that owns West Coast shopping center developer Ernest W. Hahn, has agreed not to sell its stake until after next Jan. 1.

Trizec has owned a position in ROUS since 1981, so there's scant evidence that it would want to sell to a third-party. But unless the pact is extended, Trizec could buy more than the 27.5% limit on its stake in ROUS. We have no inside track on what might happen, but think that the standstill's imminent end will focus Wall Street attention on ROUS and could lead to higher prices.

Shopping Centers: ROUS signifies malls to most investors but with acquisition of Columbia for $120 mil. in 1985, ROUS resumes its dual role as a premier developer of both malls and communities. Including properties in Columbia, ROUS has interests in 75 shopping centers with 40 mil. sq. ft. including space owned by anchor tenants. ROUS also operates 114 office properties with 8.7 mil. SF, including 81 offices with 5.1 mil. SF bought from McCormick Properties in 1988.

In 1988, ROUS added to its stable by assuming management of 578,000 SF Kendall Town & Country outside Miami; opening 120,000 SF Westlake in downtown Seattle; 1.2 mil. SF Ridgedale Ctr. in Minnetonka, MN and 968,000 SF Southland Ctr. in Taylor, MI, the latter two bought in partnership with CIGNA. ROUS both owns, either partly or wholly, and manages some centers; and manages centers for others. Centers, including stores owned by anchors, are as follows in millions of sq. ft. (MSF), at 12/87:

	Anchors	ROUS owned
Columbia-wholly owned..	0.5MSF	0.8MSF
Other wholly owned(26).	8.5 "	6.4 "
Partly owned (18)......	8.3 "	5.6 "
Managed for others(12).	5.9 "	— "

ROUS centers are widely diversified geographically and include both older suburban centers and newer urban centers catering both to tourist and downtown shoppers. Projects being developed for 1989 or 1990 opening include: Arizona Ctr. in Phoenix; 204,000 SF office in Owings Mills (Md.) Corporate Ctr.; Pioneer Place in Portland, Ore., 147,000 SF; and Underground Atlanta, 220,000 SF.

While development thrust remains strong, a few slower projects dragged 1988 results, including South St. Seaport in New York City, Riverwalk in New Orleans, Gallery at Harborplace, Baltimore, and Bayside, Miami. Results at seasoned centers were strong.

Columbia: ROUS is developer of Columbia new town between Baltimore and Washington, having about 2,700 net acres of salable land. The land was valued at $190 mil. or 11% of current value in 1987; ROUS sold $58.4 mil. land in 1988, up 44%, leaving about $180 mil. land after appreciation. ROUS says it will slow land sales in 1989 to focus upon commercial development of the rest.

Year 1988: Operating earnings before depreciation and deferred taxes (EBDDT) were reported at $65.3 mil. or $1.37/sh., up 13%. Full numbers weren't available at press time for Audit's own computation of net cash flow. Over the past five years, EBDDT, (or gross cash flow) per sh. before debt service and accruals, rose at 18.3%/yr. Current value: Appraised value of equity rose 13% in 1988 to $30.65/sh.

Advice: ROUS is the unquestioned leader in developing complex urban centers. By resuming development of the new town of Columbia, ROUS adds land sales potential (and volatility). Altho growth may be slowing slightly, ROUS has scarcity value as one of the last major developers available to the public. The expiring standstill adds current interest. **Buy/hold long-term.** (KDC)

ROUS—OTC Rank A Dec. yrs. 47.84 mil. shs.
Price: $27.00 Div. $0.56 Yld. 2.1%

Year	Op.EPS	Op.CFS	Div.	High	Low	Pr.X CFS
1985	$0.23	$0.40	$0.36	18.13	11.13	45-28
1985	0.35	0.62	0.40	23.00	17.13	31-28
1987	0.20	0.59	0.468	25.50	16.50	43-28
1988	0.37	E0.70	0.52	25.50	17.50	37-29
1989E	0.65	0.56		28.75	22.25z	

z-To date.

Finances: Debt: $1.47 bil.; Equity: $67.7 mil. at cost or $1.42/sh.; $1.49 bil. or $30.65/sh. at current value. Debt/equity ratio: 1.0-1 at current value. Holders: Trizec owns 25.0%; other officers & directors: 9.9%.
Address: Columbia, Md. 21044. (301) 992-6000.

DEL WEBB CORP. (WBB: NYSE) WEBB31089

WBB is luffing while in the midst of disposing of its casinos to concentrate on its retirement housing division. The hope that fellow Drexel Burnham client Steve Wynn would relieve WBB of its management contract on Atlantic City's troubled Claridge Hotel and Casino dissipated in October when a deal to sell the management contract to Wynn's Golden Nugget collapsed. Restructuring efforts at the Claridge continue.

Gut Issue: Will the double whammy of soft housing markets and aggressive pursuers topple WBB? Even as WBB sought to rid itself of the Claridge, housing sales are soft. In 1988, WBB delivered 792 homes at its Sun City West and Sun City Vistoso (Tucson), off 32% from the 1,161 units of 1987. Even so, WBB's housing operations turned a small profit.

To diversify from Arizona's sagging real estate market, WBB opened Sun City Summerlin near Las Vegas in November and reports 445 bookings to date. Also WBB said it would move forward with a new adult community on 1,200 acres in Roseville, Cal., 15 mi. north of Sacramento, which has one of the nation's hottest real estate markets.

One thing to watch: WBB could be an easier takeover target after exiting the casino business. New Jersey and Nevada gaming officials can be a serious impediment to a takeover or LBO of a company with a casino license and indeed have already chased two suitors away from WBB. One still sticking around is New Zealand conglomerate Industrial Equity, which owns 9.7%. Industrial Equity covets WBB's real estate and bought its stake at almost twice the current price. In Feb. WBB settled litigation with another suitor, Calmark Properties of Los Angeles, altho saying that it still hasn't received information needed to qualify Calmark under gaming laws. If and when the Claridge is sold, an end to the gaming hurdles could bring some new takeover moves.

Advice: We see WBB as either a recovery or takeover candidate, suited mainly for aggressive investors. (KDC)

WBB—NYSE Rank C Dec. yrs. 9.23 mil. sh.
Price: $14.50 Div. $0.00 Yld. None

Yr.	EPS	Div.	High	Low	Pr./EPS
1985	$2.36a	$0.20	$23.38	$16.50	9.9-7.0
1986	2.49a	0.20	28.25	19.13	11.3-7.7
1987	d10.47a	0.15	26.50	6.75	NM -NM
1988	d0.76	0.00	16.50	7.25	NM -NM
1989	NE	0.00	15.38	13.50	

Finances: Debt: $93.2 mil.; Equity: $79.1 mil. or $8.58/sh. Debt/equity ratio: 1.18-1.
Address: 2231 E. Camelback, P.O.Box 85038, Phoenix, AZ 85038. (602) 468-6800.

KOG 31089

KOGER PROPERTIES INC. (KOG: NYSE) KOG31089 #39

KOG is a leading developer of highly competitive office parks throughout the Sunbelt in cities from Wilmington, Del. to El Paso, Tex. In August 1988, Jacksonville Fla.-based KOG merged with a sister company, The Koger Co. (formerly KGR: ASE), which had bought and held properties built by KOG. Concurrently KOG also sponsored a new REIT, Koger Equity (KE: ASE—see below) to assume KGR's old role of ready buyer of KOG buildings.

Gut Issue: KOG should be able to trade on rising occupancy rates in suburban office buildings. The Coldwell Banker Office Vacancy Index showed a 1.3 point decline in suburban office vacancy to 21.5% at the end of 1988, compared to a year earlier.

While 20%-plus vacancy is no picnic, moderate strengthening will help KOG more than many developers because of the company's historic power in leasing space. Despite weakness in many of its 23 Southern markets (e.g., Miami, San Antonio, Tulsa, Orlando, Atlanta), KOG's 6.5 mil. portfolio is 95% occupied — i.e., 10% to 15% better than the competition — even as the company continues to expand by building new product.

Why so strong? KOG's use of cookie-cutter building designs keeps construction costs — and rents — lower than the competition. Most importantly, the company's in-house leasing staff is regarded as among the toughest in the business, fighting hard for tenants and rarely paying brokerage commissions to outsiders. KOG leasing agents must cold-call every potential tenant in their markets once every three months, which means agents better take rejection well. Further, since KOG owns similar products in 23 cities, KOG can offer one-stop shopping to national tenants needing several locations.

As suburban markets strengthen, competitors' rent concessions should decrease and KOG should be able to increase rents more easily for renewing tenants. With effective rents averaging $12-$13.50/sq.ft. in Koger cities, even small raises should boost gross rents — and cash flow.

Growth continues in spite of media fears about over-building. KOG has bought land in Atlanta, Charlotte, and Memphis for new construction set to begin this spring. KOG owns about 5.1 mil. SF of space for prospective sale to Koger Equity Inc (see below) and plans on adding about 500,000 SF yearly to its inventory.

Post-merger cash flow is increasing. Even without property sales to KE, operating CFS increased 6.2% to $1.20 in the nine-months ended December while December quarter operating CFS increased 23% to $0.48. Property expenses are just 31% of revenues, a level that every real estate operator would love to achieve. KOG is paying dividends at a $2.80 annual rate, and this should increase modestly in coming years.

Advice: Buy to 28. At a 10.4% dividend yield we see KOG as a high-paying, steady growth stock. Property management has allowed the company to thrive even in the weakest markets so a bit of suburban strength encourages us. (JMH)

KOG—NYSE Rank A March yrs. 25.17 mil. shs.
Price: $26.88 Div. $2.80 Yld.: 10.4%

Yr. Op.	EPS	CFS From— Rents	CFS From— Sales	Div.	High	Low	Yield
1986	$0.59	$1.23	$0.88	$2.45	$29.63	$25.25	9.7-8.3%
1987	0.51	1.10	1.10	2.575	33.88	27.00	9.5-7.6
1988	0.93	1.12	1.19	2.60	30.88	20.88	12.5-8.4
1989E	NE	1.60	1.32	2.68	28.75	24.13	11.1-9.3
1990E	NE	1.65	1.35	2.80			

Finances: Debt: $479 mil.; Equity: $86.6 mil. at cost $3.43 plus $6.50/sh. deprec. Current value equity: Est. $28.00/sh.
Address: 3986 Boulevard Ctr. Dr., PO Box 4520, Jacksonville, Fla. 32207. (904) 396-4811.

KE 31089

KOGER EQUITY INC. (KE: ASE)

KE is a new equity REIT with close ties to Jacksonville, Fla. office builder Koger Properties Inc. (KOG: NYSE), which is among the bluest of blue-chip developers. KE raised $188 mil. in August 1988 to buy an office portfolio in KOG's Sunbelt office parks. Since coming public, KE shares have fallen a bit off their $20/sh. offering price to around $18.88. KOG advises the REIT and holds 20% of its stock. (See accompanying review of KOG)

Gut Issue: Can KE support its dividend after a loan to KOG is converted into ownership of more Koger offices? Despite early Wall Street worries, we believe the answer is yes. KE loaned $106.9 mil. to KOG against future property purchases, the loan carrying a floating 11-13% interest rate. Since the current 11.2% interest rate is 1.3 points more than the 9.5% current yield on KE's office portfolio, the REIT's income should drop when the loan is converted to equity ownership.

The loan was reworked in the last stages of KE's offering last summer, an effort to make sure KE could pay a 9% yield initially, or annual distributions of $1.80 per share. The loan floats 250 basis points over 3-year Treasuries, with an 11% floor and a 13% ceiling.

However much sense that made last summer, rising rates (the prime rose a full 1% in Feb.) mean that KE's earnings will be inflated, making the dismount to full equity ownership status that much more jarring. Besides, seasoned equity investors should have a stronger interest in KE as a pure equity REIT, not one whose yield may be propped up by the loan.

KE's initial holdings of 936,000 sq. ft. of Sunbelt offices in 23 buildings are fully occupied. Buildings are sprinkled among 7 KOG suburban parks: Atlanta (26% of total SF); Greensboro, N.C. (10%); Greenville, S.C. (13%); Memphis (8.5%); Orlando (14%); St. Petersburg (10%); and Tallahassee (17%). The package to be bought from Koger Properties in July is also doing nicely (occupancy in Koger buildings generally runs 10% or better ahead of competing space). So while KE may be getting less — about $0.18/sh. by our calculator — than the loan yields, offset by the fact that 4-6% expected rent increases work out to 6.6% to 10% boosts to cash flow.

Advice: we think the impending all-equity status for KE makes it a buy. (JMH/KDC)

KE—ASE Not ranked Dec. yrs. 10.0 mil. shs.
Price: $19.00 Div. $1.80 Yld. 9.5%.

Year	EPS	CFS	Div.	High	Low	Yld.
1988	$0.43a	$0.47	$1.80b	$20.13	$18.25	9.9-8.9%b
1989E	1.70	1.80	1.80	19.38	18.63z	

z-To date. b-Dividend & yield at annual rate.

Finances: Debt: None; Equity: $187.5 mil. or $18.80/sh.
Address: P.O.Box 4339, Jacksonville, Fla. 32201. (904) 398-3403.